new year special

New coverage of ESG, *satoyama* issues

Beginning in January, The Japan Times will launch two new consortiums in a bid to promote the dissemination of English information on a pair of emerging fields.

The Environmental, Social and Governance (ESG) Consortium aims to promote the efforts of Japanese companies on ESG issues.

Today's investors are taking a strong interest not only in the sales volume and profits of companies, but also in their commitments to ESG affairs. While investors are interested in these areas, there is a shortage of ESG information from Japanese firms.

Meanwhile, the Satoyama Consortium focuses on the initiatives of local practitioners of what is known as "*satoyama* capitalism." Originally, the term satoyama referred to a shared woodlot used and maintained by area residents. Today, satoyama capitalism is used to describe the creation of new exchange values that foster a stable future for local communities and introduce a new form of revenue through utilization of natural resources that do not necessarily have monetary value.

The concept is said to have revitalized entire regions by stimulating the use of previously overlooked natural resources and job creation for area residents.

These two consortiums seek to help companies and organizations involved in their respective fields promote their activities through articles on their activities, symposiums and other means.

To better introduce the two concepts in this supplement, these pages present the opinions of various experts in these areas.

ESG requires long-term view

MICHIYO MORISAWA
JAPAN HEAD, PRI GLOBAL NETWORKS & JAPAN DIRECTOR, CDP

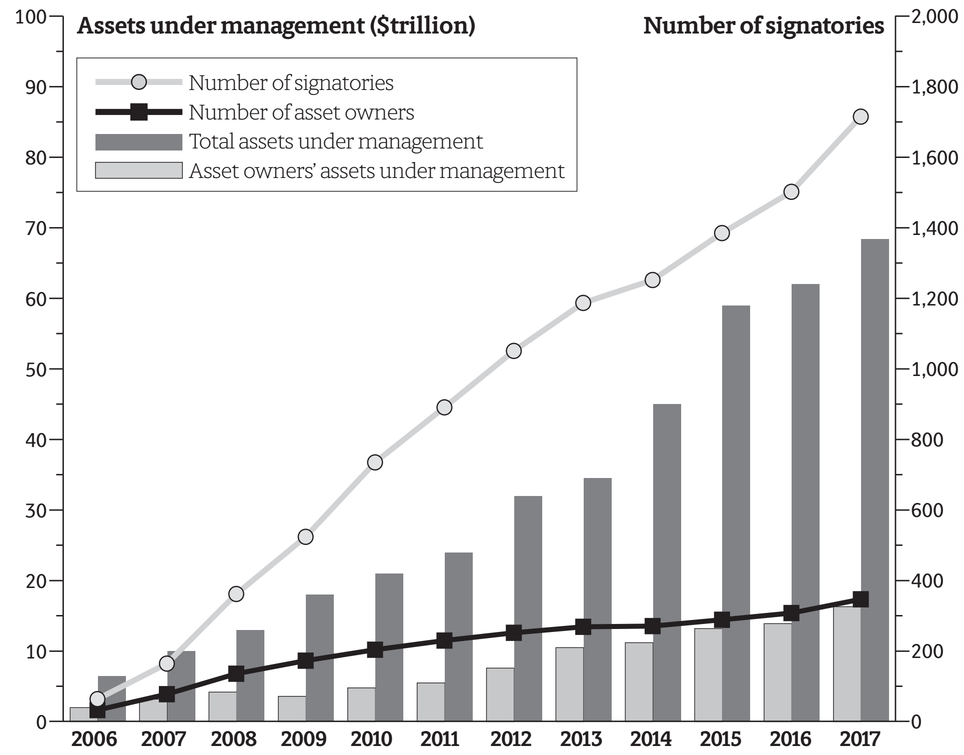
Responsible investment, known as ESG investment, requires a long-term view and is based on companies' efforts on environmental, social and corporate governance, as well as financial information. ESG information is called non-financial information, but can be looked at as future financial information since it affects a corporation's outlook.

Institutional investors believe that they can expect risk reduction and revenue growth in the medium and long-term from firms actively engaging in ESG efforts. Asset owners, including pension funds and insurance firms, are investors with a long-term view and their investment management would be operated based on their investment principles, either in-house or outsourced to trust banks and asset management companies.

Half of the Government Pension Investment Fund's assets are equities, which are comprised of an equal proportion of domestic and overseas stocks. Similarly, overseas pension funds often buy stock in firms outside of their countries as investment destinations. Foreign investors want to evaluate and see Japanese companies in the same way as investment targets overseas. In this sense, further efforts are essential for Japanese corporations to engage in ESG investment, while working to disclose and distribute information in English.

I sincerely hope the launch of the ESG Consortium will further help Japanese companies and investors promote their involvement with ESG-related activities and their delivery of information in English, as well as strengthen their continuity.

Status of the Principles for Responsible Investment



source: https://www.unpri.org

Long-held business beliefs still true in modern times

KEN SHIBUSAWA
CHAIRMAN, COMMONS ASSET MANAGEMENT, INC.

There are some things that Japan does very well. Things such as trains arriving on time, great food and anime. And the world, by and large, recognizes this.

There are other things, however, that Japan does fairly well and is getting better at as time progresses, but are not widely recognized by the world. One such thing is the commitment of Japanese corporations and executives to achieving the Sustainable Development Goals (SDGs) enacted by the U.N. and its member countries in 2015.

Unlike its predecessor, Millennium Development Goals (MDGs) that focused on assistance and aid to developing countries from developed countries, the SDGs are 17 ambitious goals to attain sustainable growth for all, even developed countries.

MDGs were more about government-to-government engagement and a realm for experts. However, with 17 goals and 169 targets, the range outlined in the SDGs is vast and inclusive of the private sector. Anyone, corporations large or small, even individuals can contribute to achieving the SDGs.

Japanese publicly listed companies such as Ajinomoto Co. and Marui Group Co. have integrated the SDGs into their corporate reporting, and others will likely follow suit. Keizai Doyukai (the Japan Association of Corporate Executives) recently established an SDGs committee, chaired by NEC Chairman Nobuhiro Endo.

However, observing global initiatives in SDGs, such as the Business & Sustainable Business Commission, whose commissioners are represented by high-level leaders in the private sector and the public, Japan is absent. China, India, Singapore and Africa are on the commission, but despite its efforts toward the SDGs, Japan is not.

It is obvious that Japan not only needs to engage in SDGs, but also to tell their story to the world.

Additionally, Japan should know something about sustainable development. According to Tokyo Shoko Research, there are over 33,000 companies with a corporate history of over 100 years. 564 of these companies are listed publicly, comprising about 15 percent of all listed public companies.

Of these 33,000 companies, 65 percent were established during the Meiji Period (1868–1912) when Japan emerged from the feudal Edo Period (1603–1868) as a developing country and 20 percent are from the Taisho Period (1912–1926) when Japan quickly caught up with developed Western countries.

During these periods, Eiichi Shibusawa, often referred to as the father of Japanese capitalism, was involved in establishing approximately 500 companies, including the first bank in Japan, now a part of Mizuho Financial Group. He had a grand yet simple vision. In order to bring wealth and prominence to the nation, the private sector must be empowered. His solution was introducing an economic system called capitalism.

His vision came from the writings in "Rongo" (Analects of Confucius) and *soroban* (abacus). His idea was that virtue must be integrated with conducting business.

However, this is not an easy way to do business. Integrating things that appear to be at opposite ends of the spectrum requires a great deal of imagination and determination.

Nor is it a kind way to do business. In his memoirs, Eiichi said: "The executive's title, as well as company assets, are all entrusted to them by the shareholders. If the executive loses trust of the shareholders, then it is appropriate that he resigns." When he introduced capitalism into Japan about 150 years ago, he knew that it came along with governance.

In our present Japan, ESG is becoming more widely recognized as an important aspect for investing. The Government Pension Investment Fund signing the Principles of Responsible Investment in 2015 was a big moment for ESG investment in Japan, but that road was already paved from over a hundred years ago in Japan.

Many companies complain that when investors approach them for ESG meetings, they have interest only in the "G" (governance), and show no interest for the "E" (environmental) and "S" (social).

This is probably true. But, it is important to remember that without good "G" in place, "E" and "S" will be difficult to implement. Governance is not about activism to coerce management to become slaves to shareholders, nor to strip valuable assets from a company.

Governance is about good board practices, which is the foundation necessary to create sustainable corporate value. If a company wants to attract long-term shareholders as their allies, especially against short-term speculative forces in capital markets, then it is essential that company has good governance. It's common sense.

Long-term investors and the company are in the same boat, playing different roles as stakeholders in creating sustainable corporate value. Long-term investors understand that ESG does not lead to short-term profits or stock gains, but rather provides input and perspectives from outside the company walls. Some of these inputs may not be of much immediate use. However, utilizing imagination and determination and integrating various input and perspectives will lead the way to creating sustainable corporate value.

Many ESG investors use screening processes to construct their portfolio. But, we do not utilize ESG as a screen at Commons Asset Management, Inc. Rather, we use ESG as a dialogue tool with our invested companies.

We can obtain digital and financial information about the company from various sources. However, financial information is usually about the past.

As stakeholders in the same boat sailing toward the future, we believe that the analogue, non-financial value of a company is essential for creating sustainable value. Engaging with companies regarding ESG helps us to understand the core values of the company that do not necessarily show up in print. The more we understand about the core values of the company, the more commitment levels rise as long-term investors in the company.

ESG is common sense investing.

Growing interest in ESG

TAKATOSHI KATO
ADVISOR, JAPAN CENTER FOR INTERNATIONAL FINANCE

It's not too much to say that the growing interest in investment taking into consideration environmental, social and governance (ESG) factors among firms is an inevitable by-product of the progress of the economy's globalization.

Aspects of such globalization, including the rising influence of emerging market countries (China tops the annual list of countries in terms of carbon dioxide emissions and India comes in third), the prevalence of global supply chains (given the public's criticism toward large companies on young labor exploitation) and global investment targets by institutional investors have fostered interest in ESG investments.

A Japanese banker recently told me that they had received an inquiry from a shareholder in reference to the institution's record of financing to palm oil producers.

As this instance shows, I feel that interests in ESG investment in Japan — although perhaps not as much as in Western countries — have certainly developed.

I truly hope the media is able to contribute to further boosting such a favorable trend.

Lasting, sustainable growth

NAONORI KIMURA
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In the first half of the 1990s — an era of continuous growth — the basis of corporate activities lay in making continuous improvements day by day and creating advanced innovation, while strengthening productivity over the long term.

Today, however, we see drastic changes in the environment surrounding companies, such as the evolution of disruptive innovation from the "internet of things," artificial intelligence and the development of sweeping globalization. In addition to working on improvement, companies are required to take a reforming approach to create a tomorrow different from today, including thoroughly selecting business areas and producing discontinuous innovation.

After all, these changes mean that corporations need to squarely address the essential question of, "For what purpose do we, as companies, exist?" This causes them to think about what additional values can they make in contributing to society and how they should operate to prevent them from excessive self-interest. We can say that we are in an era that requires companies to incorporate the philosophy of ESG investment into their management, while communicating with all relevant stakeholders.

ESG investing for innovation

PETER DAVID PEDERSEN
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I imagine most people know about the U.N.'s Sustainable Development Goals and, possibly, ESG investment. From working as a strategic advisor on corporate sustainability in Japan since the mid-1990s, I feel these two concepts represent major drivers of innovation for businesses across the world.

ESG investment is a global movement that picked up speed around 2006, when the Principles for Responsible Investment (PRI) were launched at the New York Stock Exchange with more than 100 institutional investors as signatories. PRI was first proposed in 2005 by Kofi Annan, then-secretary-general of the U.N., and today has more than 1,800 signatories, including many Japanese financial institutions.

Since then, screening corporations from an ESG perspective has rapidly become the norm rather than the exception, in particular for large institutional investors, including Japan's Government Pension Investment Fund, the world's largest pension fund, which on July 3 launched three ESG indexes. Globally, around 30 percent of all corporate assets held by investors are now screened through an ESG lens and the figure is set to grow. Responding to such investor demands for a strong sustainability performance is no longer merely a question of corporate social responsibility, but of future competitiveness. To compete globally, Japan Inc. needs to speed up its capabilities for green and socially aligned innovation.